

**ALASKA STATE LEGISLATURE  
SENATE TRANSPORTATION STANDING COMMITTEE**

February 23, 2021

1:33 p.m.

**MEMBERS PRESENT**

Senator Robert Myers, Chair  
Senator Mike Shower, Vice Chair  
Senator Peter Micciche  
Senator Jesse Kiehl

**MEMBERS ABSENT**

Senator Click Bishop

**COMMITTEE CALENDAR**

OVERVIEW: ALASKA MARINE HIGHWAY SYSTEM

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

ROB CARPENTER, Deputy Commissioner  
Department of Transportation and Public Facilities (DOTPF)  
Juneau, Alaska

**POSITION STATEMENT:** Presented a PowerPoint on the Alaska Marine Highway System (AMHS).

JOHN FALVEY, Captain; General Manager  
Marine Highway System (AMHS)  
Department of Transportation and Public Facilities (DOTPF)  
Ketchikan, Alaska

**POSITION STATEMENT:** Provided a PowerPoint assessment of the aging AMHS fleet.

MATT MCLAREN, Manager  
Business Enterprise & Development  
Alaska Marine Highway System (AMHS)  
Department of Transportation and Public Facilities (DOTPF)

Ketchikan, Alaska

**POSITION STATEMENT:** Presented a PowerPoint on AMHS ridership, revenues, and expenses of the Alaska Marine Highway System (AMHS).

#### **ACTION NARRATIVE**

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**CHAIR ROBERT MYERS** called the Senate Transportation Standing Committee meeting to order at 1:33 p.m. Present at the call to order were Senators Shower, Kiehl and Chair Myers. Senator Micciche arrived shortly thereafter.

#### **OVERVIEW: ALASKA MARINE HIGHWAY SYSTEM**

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**CHAIR MYERS** announced only order of business before the committee would be consideration of an Overview: Alaska Marine Highway System.

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**ROB CARPENTER**, Deputy Commissioner, Department of Transportation and Public Facilities (DOTPF), Juneau, Alaska, reviewed AMHS's fleet and vessel routes for Southeast Alaska on slide 2. The Alaska Marine Highway System (AMHS) has four vessels running in Southeast Alaska, the Kennicott, Lituya, LeConte and Matanuska. The Matanuska runs from Bellingham, Washington to Haines and Skagway. The Kennicott has a similar route but crosses the Gulf of Alaska to Yakutat, then on to Southwest Alaska. The LeConte run includes the villages of Kake, Hoonah, Tenakee, Gustavus, and Pelican in Northern Lynn Canal. The Lituya is the only day boat currently operating, which runs from Ketchikan to Metlakatla, he said.

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**MR. CARPENTER** reviewed the Southwest Alaska vessel routes on slide 3. He directed attention to the orange line highlighting the Kennicott's run from Yakutat and Whittier, then south except when the Tustumena travels to Dutch Harbor. On that run the Kennicott will travel to Kodiak and Homer, he said. The Aurora covers Prince William Sound when operational, traveling to Whittier, Valdez, and Cordova.

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**JOHN FALVEY**, Captain; General Manager, Marine Highway System (AMHS), Department of Transportation and Public Facilities (DOTPF), Ketchikan, Alaska, reviewed AMHS's aging 12-vessel

fleet depicted on slide 4. In the private sector, most vessels are run for 30 years and then surplused. Unfortunately, three of AMHS's vessels are over 57 years old: the Malaspina, Matanuska, and Tustumena. Another three of AMHS's vessels are over 44 years old: the LeConte, Columbia and Aurora. The Kennicott is 27 years old, he said. Three vessels are 17 years old: the Lituya, Chenega and Fairweather. The fast ferries Chenega and Fairweather are not suitable to run in Alaska due to high operational costs. Thus, the department let a sealed bid project to sell the vessels, including the engines, which are currently warehoused. DOTPF has a responsive bidder, he said.

CAPTAIN FALVEY provided details on ship repairs and vessel status on slide 5. Four vessels are currently being overhauled: the LeConte, Aurora, Kennicott, and Tustumena. The Columbia, Hubbard and Tazlina are currently in layup. The Malaspina is in long-term layup in preparation for disposal or sale. The Malaspina requires \$16 million or more in steel replacement and \$30 million in engine replacement costs so the department decided to sell it. The department invested federal funding on steel replacement to keep the Tustumena operational and the ship is currently in the Seward shipyard undergoing additional upgrades. AMHS also plans to provide additional steel replacement and upgrades to the service elevators at the Seward shipyard over the next six months.

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CAPTAIN FALVEY described the Matanuska as a SOLUS-classed vessel, equipped with safety features that allows it to travel to foreign ports, including Prince Rupert, Canada. Over 18 months ago the Matanuska underwent engine room work and a \$40 million major conversion required by the USCG [US Coast Guard]. He offered his view that the ship is in good shape.

CAPTAIN FALVEY said AMHS spent \$5 million in state funding on the LeConte on major steel upgrades. This ship also underwent \$5 million in federal amenities and steel replacement so it is in good shape, he said. The Columbia will go into overhaul at the Ketchikan shipyard in March 2021. This vessel has new engines and a federal project will fund propeller replacement to address long-standing vibration issues. The Kennicott can also travel to Prince Rupert, he said. The Lituya was overhauled and currently runs between Ketchikan and Metlakatla. It will undergo a federally-funded interior and exterior paint project, he said. The Tazlina and Hubbard, Alaska Class ferries, run between Juneau, Haines, and Skagway. Side doors have been installed to

allow these vessel to run to villages once the 12-hour day crew issue is resolved.

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SENATOR KIEHL recalled that the Matanuska required European mechanics to service its engines. He asked if European mechanics would be needed to service Columbia's engine propulsion system or if it could be serviced in the US.

CAPTAIN FALVEY replied that once the new propeller system is installed, AMHS will be able to use the same company that supplied the Kennicott's engines to service the Columbia's engines.

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SENATOR SHOWER asked for the crew status for the vessels while in layup.

CAPTAIN FALVEY responded that most of AMHS's employees will continue to work their rotations. Thus, the baseline staff will stay employed. However, the Columbia's full crew of 61 will be reduced to 25 during layup. He lamented the difficulties in retaining employees when vessels are in layup.

SENATOR SHOWER referred to the aging fleet. He asked how many ships are needed to provide service.

CAPTAIN FALVEY offered his view that six ships could provide adequate service to communities. AMHS strives to run its ships with better passenger utilization. However, success will depend on the COVID-19 pandemic, he said.

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CHAIR MYERS asked why AMHS is selling the Chenega and Fairweather fast ferries.

CAPTAIN FALVEY explained that the ships operated under the international high-speed code and it turned out they were too costly to operate. He elaborated that it was expensive to train the crews, the payloads were small and the ships consumed substantial fuel.

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CAPTAIN FALVEY reviewed the Alaska Marine Highway System's Fleet Status on slide 5. He reported that the Lituya currently runs five days a week. The LeConte will provide service in Southeast while the Matanuska is being repaired. The LeConte will run in

Lynn Canal after its overhaul and the Kennicott will run from Bellingham to Whittier and Kodiak. He related that the Tustumena is currently at the Seward shipyard being overhauled, and the Aurora will also be overhauled there but it should be operational by April 15, 2021

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CAPTAIN FALVEY reported that the Matanuska currently provides service from Bellingham to the communities of Ketchikan, Wrangell, Petersburg, Kake, Sitka, Haines, and Skagway. After its layup, the Aurora will provide service in Prince William Sound. The Columbia is currently being overhauled at Vigor shipyard in Ketchikan. The Malaspina, Hubbard, and Tazlina are currently in layup, he said.

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SENATOR MICCICHE directed attention to the 20-year gap between the purchase of the Aurora and the Kennicott. He asked if AMHS should consider a more evenly spaced vessel replacement schedule.

CAPTAIN FALVEY agreed it should. He reported that AMHS is currently in the design phase for the Tustumena's replacement. AMHS anticipates that this design will include a hull form that could also be used for a mainline ferry, he said. However, the Matanuska and Columbia should be able to run for a while since they have new engines.

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SENATOR MICCICHE asked whether the state went too long between replacing its vessels.

CAPTAIN FALVEY replied that most commercial operators replace their vessels every 30 years. He reported that federal monies fund vessel replacements but in a perfect world there would be less of an age gap.

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MR. CARPENTER related that the Kennicott was brought on after the Exxon Valdez Oil Spill. It was at least partially funded from settlement funding since it could also serve as a response vessel in case of future oil spills. DOTPF has tried different approaches to address its aging fleet, such as bringing in the fast ferries. The concept was to develop a system of vessels with shorter runs to cut vessel operational costs and to address AMHS's reliability and flexibility. He agreed with Captain Falvey that six vessels could provide a minimum level of

service, but AMHS lacks a backup vessel to use when one of the vessels suffers mechanical issues. Of course, mechanical issues do happen since the ships are 50 years old, he said. Without backup, AMHS struggles to provide system reliability. Customers routinely complain about not having reliable schedules, which is important to businesses and communities, he said.

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MR. CARPENTER related that the department envisioned creating a day boat operation using the Alaska Class ferries. While that potential still exists, unless certain characteristics were added, the Tazlina and Hubbard cannot be used as backup to the LeConte and Aurora. AMHS has faced and continues to face challenges retaining adequate crew, navigating a cumbersome collective bargaining process, and addressing hurdles created by COVID-19. Regarding COVID-19, AMHS developed an excellent mitigation plan. Due to AMHS's diligent crew and adequate testing, it created a bubble. Just as AMHS's preclearance plan for passengers traveling through Canada to Alaska's ports was nearly finished, Canada shut its borders and announced Prince Rupert will be closed until February 2022.

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SENATOR MICCICHE asked for the employee count and service reductions for AMHS's different bargaining units.

MR. CARPENTER offered to provide the data to the committee.

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SENATOR KIEHL disagreed with Deputy Commissioner Carpenter's comment that six ferries were providing adequate levels of service to communities. From his discussions at Southeast Conference and with business owners, mayors, and individuals on AMHS's service to communities, the sentiment was that the service level provided by the ferry system is crushing communities, businesses, and households. In some instances, ferry service in some communities means one ferry per week but for other communities, service means one ferry per month. Communities cannot function with that level of service, he said. He related his understanding that the bargaining units have not asked for significant changes or flexibility in scheduling and staffing.

MR. CARPENTER answered that union negotiations are ongoing so he was unsure what he could say. He said some things are challenging given the current fiscal situation.

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SENATOR SHOWER offered his view that the current AMHS model is not a sustainable one. The state needs a ferry system but the legislature and administration need to determine what services to provide and should entertain other options.

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MR. CARPENTER reviewed AMHS's operating budget from FY 2015 to FY 2022 on slide 7. He stated the blue bar highlights the state fund contributions and the gray bar shows AMHS's revenue. He discussed AMHS's authorized budget which went from \$175 million in FY 2015 to \$113.1 million in FY 2020. The unrestricted general funds (UGF) were reduced from \$119 million in FY 2015 to \$49.6 million in the FY 2020 authorized budget. In FY 2020, revenue projections were \$55 million but actual revenue was \$28 million due to COVID-19 and a union strike. This shortfall caused a considerable drop-in service and meant boats were laid up. The FY 2021 projected revenues of \$52 million was revised to \$25 million due to COVID-19 pandemic. During the time AMHS operated its ships at reduced capacity to provide for social distancing. Overall, AMHS has suffered \$45 million in lost revenue during the two-year pandemic, which has caused significant strain on the system's ability to operate.

MR. CARPENTER reported on AMHS's proposed FY 2022 budget. The total FY 2022 budget is \$103 million, with UGF of \$55 million. The projected revenues of \$47 million are based on increased passenger capacity. The green slices on the bar charts represent CARES Act funding. He noted that the Federal Transit Administration (FTA) grants helped AMHS bridge staff salaries during the pandemic.

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SENATOR SHOWER asked if the chart showed total COVID-19 funding AMHS has received to date.

MR. CARPENTER answered yes. He stated that AMHS received \$10 million in CARES funding to date.

SENATOR SHOWER asked if the department has determined the amount of supplemental funding it will need for AMHS operations this year.

MR. CARPENTER responded that DOTPF requested \$6 million to cover the shortfall. However, the department is currently evaluating other options, including CRRSAA funds [Coronavirus Response and Relief Supplemental Appropriations Act of 2021], FTA grants, or

general fund monies. He said the department will work with the finance committees to determine the best way forward.

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CHAIR MYERS asked if ridership dropped off to the extent that a cap was not really necessary.

MR. CARPENTER responded that when the pandemic began to ramp up, communities initially shut down due to concerns about COVID-19 spread and people stopped traveling. AMHS's mitigation plan took ridership down to about 30 percent capacity for each vessel but DOTPF anticipates capacity will soon increase.

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MATT MCLAREN, Business Enterprise & Development Manager, Alaska Marine Highway System, Department of Transportation and Public Facilities (DOTPF), Ketchikan, Alaska, reviewed the historical traffic and operating weeks from 1989 to 2020 for AMHS ridership shown on slide 8. He reported that vehicle traffic has been consistent in the last 30 years but passenger traffic has steadily declined, in part, due to the convenience of air travel. AMHS's costs increased in 2005 to 2007 because all 11 ships were running unless the vessels were in overhaul. While the operating weeks increased by about 40 percent, passenger ridership only increased by 19 percent during that same time.

MR. MCLAREN said in FY 2020, the [Inland Boatmen's Union] strike lasted nine weeks. AMHS laid up ships during the pandemic since travelers avoided travel in confined spaces. AMHS's mitigation plan also decreased operating weeks.

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SENATOR KIEHL asked what impact mechanical issues and schedule changes had on ridership and service weeks. He offered his view that ridership has continued on a downward trend because people found the ferries were not reliable.

MR. MCLAREN reported on cancellations, that historically about 30 percent were due to mechanical issues, 30 percent were due to weather, and the rest were due to schedule changes. He offered to provide specific data for the last five years.

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SENATOR SHOWER commented that from 2013 to 2018 AMHS's ridership has decreased but its vehicle traffic has remained steady except during COVID-19. He asked what changes should be made, perhaps considering shifting to smaller ferries. He emphasized the need



for a ferry system, but it must be an efficient system and meet the demand for services.

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SENATOR MICCICHE recalled that AMHS's passenger ridership has declined since 1992. Even when AMHS increased its operating weeks, there was not a corresponding bump in ridership, he said. He suggested that the department may need to evaluate how needs have changed and revamp the routes based more on 2021 needs rather than historical ones.

MR. MCLAREN agreed. He observed that the increase in operating weeks tended to spread the passenger traffic out.

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MR. MCLAREN said slide 9 provides more detail on ridership and operating weeks. He agreed that ridership has decreased in the last 10 years, that the department is evaluating the trends to develop a plan forward.

MR. MCLAREN reviewed AMHS's Revenue from FY 2013 to FY 2021 on slide 10. AMHS gradually shifted to formula-based tariffs over a four-year period from FY 2015 to FY 2019, which positively impacted revenues. He related that FY 2019 was a big year for revenue. In fact, AMHS had nearly the same amount of revenue in FY 2019 as in FY 2014 but the system ran almost 50 weeks less of service, he said. FY 2020 to FY 2021 reflects the effects of COVID-19, he said. However, the governor's FY 2022 budget will allow the AMHS to provide more service to communities that have been struggling. He said AMHS hopes that some cruise ship travelers will choose to use the ferry system since the cruise industry has cancelled ships for this season.

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SENATOR KIEHL said it would be interesting to see the Lituya's impact on revenues for slides 9 to 11 since this vessel operates on a different business model. The Lituya operates a short run on a predictable schedule five days a week, he said.

MR. MCLAREN responded that the Lituya provides service for 50 weeks a year and generates about \$1 million in revenue per year. He offered to provide more detailed information to the committee.

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SENATOR MICCICHE acknowledged that AMHS has suffered significant budget cuts in recent years. He asked if AMHS has surveyed

communities to determine what services are most important to them. He suggested that there may be more economical solutions to serve communities. He highlighted that he was not necessarily suggesting reductions in services but the overall effect might be to increase some services and decrease other ones by prioritizing coastal communities' needs.

MR. CARPENTER responded that DOTPF regularly solicits comments from communities at the Southeast Conference or during tariff changes. Most recently, the Marine Highway Reshaping Work Group reached out extensively to communities and received public input. AMHS's goal is to provide the best service it can based on its fleet makeup and funding. In his earlier statement, he did not mean to imply AMHS currently provides the services communities want. The department's goal to at least meet minimum needs is dependent on the agency's resources, assets, and efficiency. DOTPF is evaluating how to best improve AMHS's services going forward, perhaps by changing routes or using private vendors to assist it, he said.

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SENATOR MICCICHE related his experience that coastal constituents typically want funding restored to the level prior to the budget cuts. The public generally does not accept that the state must prioritize its services, he said. He agreed that AMHS might benefit from some private vendors complementing its services.

MR. CARPENTER suggested that the way AMHS historically operated may not be the best option because it added runs based on demand. More recently, the legislature has urged AMHS to match its revenues and expenditures. He reiterated the current goal to receive \$50 million in funding and offset it with \$50 million in revenue while still providing a minimum level of service to communities.

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SENATOR SHOWER urged the department to make recommendations to the legislature for action rather than to simply hold discussions on challenges. He predicted that budget reductions would be ongoing so the ferry system will need to adapt. He related an example of transportation changes, such that the state does not subsidize Alaska Airlines. However, Alaska Airlines survived by adapting its model when aviation fuel costs increased by cutting flights. Airline flights are generally full due to the economic necessity, he said.

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MR. MCLAREN stated that slide 11 converts the revenue shown on the last slide to revenue generated per week. He reiterated that most of AMHS's revenue is derived from transporting vehicles and freight. He reported that the tariff increases increased the amount of revenue per operating week. Slide 12 lists the historical tariff rates from May 2015 through May 2019, he said.

MR. MCLAREN reviewed dynamic pricing on slide 13. He explained that dynamic pricing means that as a ship fills, AMHS charges a higher tariff base price for the remaining car deck space. This means high demand routes generate more revenue and lower demand routes stay at base rate. AMHS has seen a nine percent increase in revenues due to tariff changes, which would increase revenue by \$4.5 million in a normal year.

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SENATOR KIEHL suggested that AMHS could market discounts on the nearly empty runs to fill the ships.

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MR. CARPENTER turned to AMHS System-Wide Capacity Utilization 2011 to 2019 on slide 14. He pointed out that this shows approximately 60 percent of the vessel capacity is taken up by vehicles. In recent years, passengers represent about 25 percent of vessel capacity, he said.

MR. CARPENTER reviewed the historical revenue and operating costs from 1991 to 2022 on slide 15. He directed attention to the bar graphs, with pink representing revenue and blue representing the general fund components. The blue line indicates the fare box recovery or the ratio of the UGF to the generated revenue. He pointed out that from 1991 to 2006 the ratio was 50:50. Since 2008, AMHS has needed additional state general funds to offset the additional expenses of operating its vessels. Due to increases in oil prices and wage increases, revenue generated from tariffs remained the same, he said. In fact, only 30 percent of AMHS's operating costs were covered by its revenue. During COVID-19, the cost recovery rate dropped even lower to 15 percent, he said. He highlighted the department's goal to increase the cost recovery rate to 50 percent in FY 2022.

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SENATOR MICCICHE remarked that this chart shows the necessity to have spending discipline and an effective spending limit.

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MR. CARPENTER directed attention to statistics for the ferry system on slide 16 that members could review.

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CHAIR MYERS offered his view that the state currently has a decent system to move large-scale cargo and people. He suggested that perhaps the ferry system's niche is to move smaller cargo, such as personal vehicles.

MR. CARPENTER agreed that sounded accurate. He emphasized that Southeast Alaska and Southwest Alaska coastal areas benefit from AMHS. He related that some communities in Alaska only have air service, others have the road system. He characterized Alaska's transportation system as a multi-modal, complicated system.

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There being no further business to come before the Senate Transportation Standing Committee, Chair Myers adjourned the meeting at 2:59 p.m.